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UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Investigation of the Continued Reasonableness of Current Size Limitations for PURPA QF Published Rate Eligibility (i.e., 1 MW) and Restrictions on Contract Length (i.e., 5 years)	Case No. GNR-E-02-01 COMMENTS OF AVISTA CORPORATION

Avista Corp. submits these comments in the above-cited case. Avista has been supportive of the Idaho Public Utilities Commission's interpretation of the Public Utility Regulatory Policies Act ("PURPA") requirements. The Commission has recognized the balancing needed to acquire resources at fair costs while not inhibiting the development of small-scale power facilities. Avista's comments herein address the size and contract length of Qualifying Facilities (QF).

Comment No. 1: QF Size Can Impact Avista's System

Avista supports continuation of a one-megawatt limitation for purposes of determining entitlement of developers to receive contracts under PURPA published avoided cost rates.

Units with a generating capacity larger than one megawatt may have a significant impact on Avista's electrical system. System impacts such as requirements for reserves, system voltage and scheduling can result in major costs to the company. Small units will have relatively smaller impacts, and in effect will blend into the system. However, the larger the resource, the greater are the impacts that must be considered by system planners and operators. All individual impacts of large QFs should be considered when determining avoided cost purchase rates and other contract terms and conditions.

Raising the threshold for entitlement to published avoided cost to ten-megawatts could result in significant additional costs to Avista's customers. Ten megawatts represents one percent of the company's loads. The current tariff limit of one megawatt for entitlement to published avoided cost rates alleviates the concern that large projects will cause unique costs to Avista's customers that are not reflected in the published avoided cost rates.

The intention of PURPA is that a utility be required to pay for a purchase from a QF only that amount that the utility would have had to pay for power that, but for the QF purchase, it would have had to acquire from another source. For larger units (e.g., over one megawatt) this means the purchase contract's terms and conditions must be evaluated and negotiated individually to ensure customers are not overpaying for the new resource, and that the unique costs to the system of the large QF are adequately accounted for when determining the purchase rates.

Avista recommends that the Commission continue with the one-megawatt or less eligibility threshold for determining entitlement to published avoided cost rates.

<u>Comment No. 2: Competition As The Commission Envisioned Has Occurred</u>

Avista believes that competition has occurred in the wholesale market to the significant benefit of customers in Idaho. The western system of which Idaho is a part supports a very robust and competitive wholesale market. New generation, whether owned or purchased, must be competitive with market prices. Wholesale transactions have increased tremendously in the last few years. This has resulted from the transparency of wholesale prices and the number of sellers in the market. The market has supported numerous independent power plants that have been built and operated as merchant plants solely for sale into the wholesale market. Marketers and brokers sell and buy continuously within the market. Prices are readily obtainable for the purchase and sale of power. Published market indexes and forward price strips enhance competition by making market information readily available.

For all intents and purposes, wholesale electric markets are transparent with respect to price. Almost all generating utilities and project developers sell and buy at prices tied to the regional trading hubs.

Avista disagrees with the contention that competition has not occurred in Idaho. An alleged and unsupported absence of competition is not an adequate basis for imposing upon utilities and their customers an obligation to acquire power at published avoided cost rates for long periods of time.

Comment No. 3: Term Extension

Avista Corporation recommends that no requirement be imposed upon utilities to offer contracts of a longer duration than five years, and that contracts of a longer duration be individually negotiated and approved by the Commission. Current power markets are focused on short-term arrangements. Generally speaking, twenty-year purchase contracts are not available, and ten-year deals are very difficult to find. Most market transactions are one month to five years in length. Credit risks to the purchasers and sellers are very difficult to manage for power sale arrangements that extend beyond a five-year term.

Although, longer than five year-term arrangements are not precluded in the current market, they require custom negotiation. In the current market, options to renew or extend contracts may be more readily obtainable than initial long terms. Additionally, it should be noted that the Washington Utilities and Transportation Commission currently only approves published PURPA rates for a period of six months going forward using the wholesale market as the surrogate price. Were this Commission to require longer than five year contracts on the basis of published avoided cost rates, Avista's task in reconciling the requirements of Washington and Idaho would be much more difficult.

Avista submits that a short mandatory time frame for contracts pursuant to published cost rates better reflects changing market prices and protects Avista's customers from bearing excess costs associated with mandatory long-term, non-negotiated contracts.

Comment No. 4: Ratepayer Interests

Any change to the PURPA rules should be measured against the impact to the customer (ratepayer). The cost and quality of a resource to Avista's customers should be similar whether from obtained from Avista, another utility, or a QF developer.

Individual power purchase contracts should not increase costs and create upward pressure on retail rates when compared to other resource options. The upward pressure on Avista's retail rates resulting from acquisitions from small QF's remains relatively low. However, there could be a significant retail rate risk to customers resulting from purchases from large QF's.

Avista submits that the Commission's existing rules implementing PURPA in Idaho have served the needs of developers while restraining upward price pressure on customers. The Company does not believe customers will benefit either from changing the eligibility for published rates or the restrictions on contract length.

COMMUNICATIONS:

Communication respecting this matter should be directed to:

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Respectfully submitted this 14th day of March, 2002

Richard L. Storro
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 14th day of March, 2002, I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

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